



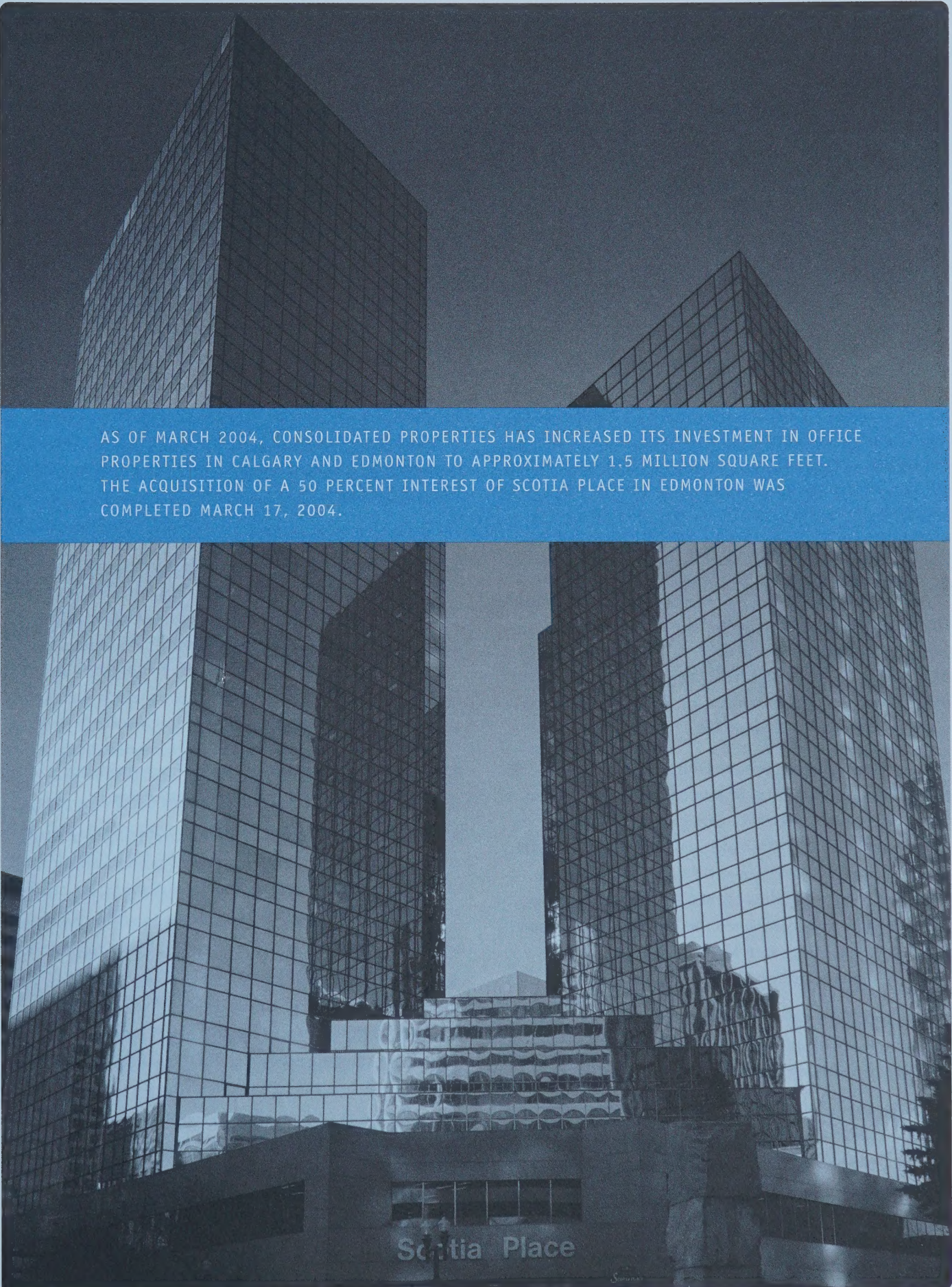
# Consolidated Properties Ltd.

2003 ANNUAL REPORT



Consolidated  
PROPERTIES LTD.





AS OF MARCH 2004, CONSOLIDATED PROPERTIES HAS INCREASED ITS INVESTMENT IN OFFICE PROPERTIES IN CALGARY AND EDMONTON TO APPROXIMATELY 1.5 MILLION SQUARE FEET. THE ACQUISITION OF A 50 PERCENT INTEREST OF SCOTIA PLACE IN EDMONTON WAS COMPLETED MARCH 17, 2004.

Scotia Place

## OUR MANAGEMENT TEAM



RICK B. CHARLTON, R. SCOTT HUTCHESON, KELLY J. WILDEMAN, GREG A. GUATTO, CHRIS W. HOWARD, VERONICA D. BOUVIER, KENNETH G. DIXON

## MESSAGE TO SHAREHOLDERS

Since June 2001, Consolidated Properties has disposed of 40 retail, residential, industrial and long-term care assets throughout five provinces of the country and, as of March 2004, has redeployed the resulting proceeds to seven office properties located in Calgary and Edmonton comprising approximately 1.5 million square feet; evidence that the Company has almost completed its defined goal of becoming a pure play owner of downtown office buildings.

During the year we were successful in completing a \$21.3 million acquisition of the ING Building, an "A" class, 257,000 square foot office building located in the central business district in Edmonton, a picture of which is featured on the cover of this report.

We have also recently completed a \$32.3 million, 670,000-square-foot acquisition of 50 percent interests in Scotia Place (Edmonton) and 505 – 3rd Street SW (Calgary) from Morguard REIT. The Calgary office portfolio is now approximately 640,000 square feet and the Edmonton office portfolio approximately 800,000 square feet. We are excited to have completed this transaction and look forward to partnering with Morguard REIT, one of Canada's premier real estate investment concerns.

Throughout 2004 we will continue to search for creative growth opportunities, leveraging our expertise as much as possible and seeking new partners where appropriate.

Although we have defined our focus to be Western Canada, we have concentrated our investments in the province of Alberta. We like the "Alberta Advantage" and we are confident that the future economic prospects for

the province will be equivalent to or will exceed those in other regions of Canada. Recently the Fraser Institute commented on Alberta's competitive advantage in Canada, citing that Alberta:

- led in real GDP in 2003
- has the lowest taxes (no sales taxes or capital taxes)
- has the lowest debt per capita
- leads in retail sales per capita
- leads in investment climate
- has an educated labor force
- has a strong emphasis on smaller governments, spending restraints and private enterprise.

As a result of the positive factors above, many real estate advisory firms predict continuation of positive absorption of office space in the central business districts of Calgary and Edmonton through 2004.

We believe that the likelihood of new construction of downtown office buildings in Calgary and Edmonton, for at least the next two years, is very low. We predict the demand for downtown office space will increase, resulting in a positive impact on office rental rates and profitability.

## OUR BOARD OF DIRECTORS



CHARLES W. BERARD, R. SCOTT HUTCHESON, ERIC C.M. KONG, ARNI C. THORSTEINSON, STEVEN C. FUNK, HAROLD P. MILAVSKY

These factors should bode well for the office portfolio of Consolidated Properties. We expect our concentration in the province of Alberta to continue, however management will continue to canvass all major markets in Canada for investment opportunities.

As real estate owners we invest in underperforming assets where capital appreciation can be accomplished through an aggressive lease-up program, restructuring of the debt or the asset and a corporate culture that is disciplined and focused. Our philosophy includes using cash to leverage and takes advantage of favorable debt markets and interest rates. We engage third party property management, and through supervision and management, ensure that they employ hands-on, focused property management and that they add value by increasing occupancy and net cash flow from assets by outperforming the market on leasing velocity and rental rates.

We do not pay dividends. We are comfortable managing high levels of debt, and we require significant amounts of cash to enhance asset value. We are thus not suited to a REIT structure, which relies on steady cash flow and moderate loan-to-value ratios.

Looking forward it would appear that low interest rates will continue, providing leveraged buyers with attractive yields. Demand for real estate, as an investment vehicle, will continue as confidence in the equity capital markets will be slow to return. Despite aggressive competition from the REITS, pension funds, foreign investors, syndica-

tors, and private buyers, and the resulting cap rate compression, we will continue our efforts to grow through acquisition of assets. We will look to acquire well located, downtown office property for prices significantly less than replacement cost, and with rental rates that are at, or below current market with reversionary potential. Liquidity will continue to be provided by disposition of assets which have appreciated in value through effective asset management.

We look forward to reporting our results in the future.

On behalf of the Board,

R. Scott Hutcheson  
*President and CEO*

Arni C. Thorsteinson  
*Chairman of the Board*

MARCH 17, 2004

THE COMPANY HAS REPOSITIONED ITS REAL ESTATE PORTFOLIO TO DOWNTOWN CLASS A AND B OFFICE PROPERTY AND NOW HAS ONLY TWO NON-CORE ASSETS REMAINING.



520 - 5 AVENUE SW, CALGARY



SCOTIA PLACE, EDMONTON

### REAL ESTATE TRANSACTIONS

Consolidated Properties Ltd. (Consolidated) commenced the year with six income-producing properties with a carrying value of \$81.3 million and six properties held for sale with a carrying value of \$36.9 million.

Four assets were sold in the first quarter for net proceeds of \$13.1 million, resulting in a net gain on sale of \$936,000, the retirement of term debt of \$9.0 million and the full release of Consolidated's covenant.

During the second quarter of the year lease-up and debt restructuring were completed on Centre Square and hence the non-core Northwest Territories asset was reclassified from income-producing properties to properties held for sale.

The Company increased its ownership position in Calgary Medical Centre to 100 percent in February 2003 and completed upward financing of approximately \$1.9 million on the property with a new seven percent CMBS, 10-year note, with a 25-year amortization. New leasing increased the value, resulting in an offer for the purchase of the Medical Centre in November 2003. The asset was subsequently sold on February 11, 2004 for proceeds of \$14.3 million.

The revenues, expenses, assets and liabilities of Calgary Medical Centre have been reflected as discontinued operations in 2003's consolidated financial statements in accordance with the new requirements in the CICA Handbook, Section 3475, Disposal of Long-lived Assets and Discontinued Operations.

In September 2003 Consolidated completed the acquisition of the ING Building, a 257,000 square foot, class A office tower located in the central business district of Edmonton and occupied by high quality tenants such as ING Western

Union Insurance Company, Bell West Inc. and Alberta Infrastructure. The purchase price was approximately \$21 million and was financed with first mortgage financing at 75 percent loan to value.

As at the end of the year the Company's real estate portfolio includes five income producing properties with a carrying value of \$77.2 million, three properties held for sale with a carrying value of \$35.0 million and one discontinued operation with a carrying value of \$17.3 million.

Subsequent to the end of the year the discontinued operation and one property held for sale were sold for net proceeds of \$20.8 million. Term debt totaling \$13.5 million was assumed by the purchasers.

Following the sale of these assets, the Company's cash position increased to approximately \$14.0 million, of which approximately \$8.0 million have been invested in a 50 percent interest in two income producing properties acquired on March 17, 2004. Scotia Place, a 535,000 square foot, two tower, A Class office property in Edmonton and 505 - 3rd Street SW, a 135,000 square foot B Class office building in Calgary were acquired.

During the year the Company increased its office assets to seven properties, it exited from all industrial assets and it reduced the number of its retail buildings to one.

The remaining properties held for sale include Centre Square, an office/retail complex in Yellowknife and Portage Place, a retail shopping centre in Winnipeg.

Recent developments in the City of Winnipeg should benefit the future of Portage Place Shopping Centre, introducing significant traffic and increased retail sales. The completion



ING BUILDING, EDMONTON



DOMINION CENTRE, CALGARY



833 - 4TH AVENUE SW, CALGARY



ATRIUM II, CALGARY

of construction of the MTS Centre, a 15,000+ seat entertainment, sports, performing arts and community events facility adjacent to Portage Place is expected in the fall of 2004. In addition Manitoba Hydro has recently selected a commercial development site across from Portage Place for its new 600,000 square foot headquarters that would accommodate in excess of 2,000 employees. It is expected to be completed by 2006.

#### DEBT TRANSACTIONS

During the year the Company increased the outstanding debt on three properties by \$3.6 million and renewed an existing, interest only, second mortgage; all with rates less than those previously in place, resulting in a reduction in the weighted average rate of interest.

Debt was reduced by a \$1 million payment on the first mortgage on the Yellowknife property and the seven percent convertible debenture totaling \$3,693,750 was converted into 14,775,000 common shares, resulting in a combined reduction of annual interest costs of approximately \$330,000.

New debt totaling \$24.1 million, with interest rates ranging between 6.41 percent and 6.94 percent, was arranged on the acquisition of income producing properties of \$32.3 million in March 2004.

#### CAPITAL STOCK TRANSACTIONS

The number of outstanding common shares increased by approximately 19.5 million during the year, of which 14.7 million related to the issue of common shares on the conversion of the seven percent debenture and 4.8 million of which related to the issue of shares in connection with

the acquisition of the remaining 36.75 percent of the Calgary Medical Centre. These shares were issued to Aspen Properties Ltd. (Aspen) and resulted in an increase in Aspen's interest in the Company to 51.07 percent.

During the year a total of 5.4 million shares were traded on the Toronto Stock Exchange, as compared to a total of 5.0 million shares for the preceding year. Notwithstanding the 26 percent increase in outstanding shares, from 75.5 million to 95.0 million shares, the share trading price for both 2003 and 2002 has remained at \$0.25 per share, resulting in an increase in market cap from \$19.0 million to \$24.0 million.

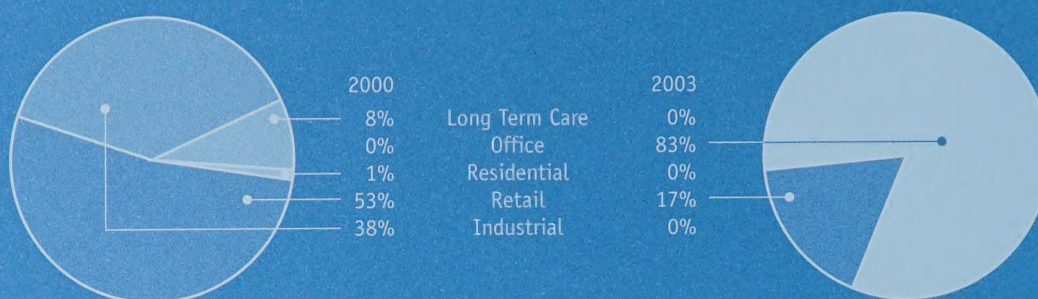
#### OPERATIONS AND PROPERTY MANAGEMENT

The Company's real estate portfolio consists of approximately 1.34 million square feet as at December 31, 2003, of which 1.18 million square feet is managed by Aspen Property Management Ltd. This entity is a wholly owned subsidiary of Aspen Properties Ltd., which owns 51.07 percent of Consolidated Properties Ltd.

The arrangement with Aspen Property Management enables Consolidated to have access to a full range of property management and leasing services.

During the year 88 leasing deals for 302,031 square feet were completed. Subsequent to year end an additional 17 deals for 34,847 square feet have been completed. Building occupancy has decreased slightly from 87 percent to 84 percent year and the average rent has decreased slightly from \$11.56 per square foot to \$11.45 per square foot year over year.

## NET OPERATING INCOME BY PRODUCT TYPE

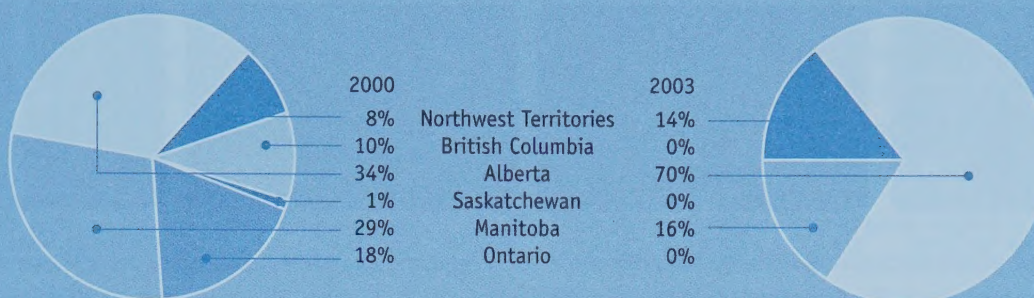


\*NET OPERATING INCOME IS DEFINED AS REVENUE LESS PROPERTY OPERATING EXPENSES.

## REAL ESTATE PORTFOLIO

AS AT DECEMBER 31, 2003	SQUARE FOOTAGE	DATE OF ACQUISITION	DATE OF DISPOSITION
<b>RETAIL</b>			
McIvor Mall, Winnipeg	62,000	Oct 1996	Feb 2004
Portage Place, Winnipeg	293,971	Jul 1997	
	355,971		
<b>OFFICE</b>			
520 - 5th Avenue SW, Calgary	192,357	Mar 2002	
Atrium I, Calgary	105,997	Mar 2002	
Atrium II, Calgary	108,991	Mar 2002	
Calgary Medical Centre, Calgary	127,487	Apr 2002	Feb 2004
Centre Square, Yellowknife	92,506	May 1998	
Dominion Centre, Calgary	95,638	Mar 2002	
ING Building, Edmonton	257,426	Sep 2003	
	980,402		
Total Portfolio at Dec. 31, 2003	1,336,373		
Less properties sold Feb 2004	(189,487)		
Plus properties acquired Mar 2004			
505 - 3rd Street SW, Calgary - 50%	135,106	Mar 2004	
Scotia Place, Edmonton - 50%	534,603	Mar 2004	
Total Portfolio (Mar 2004)	1,816,595		

## NET OPERATING INCOME BY GEOGRAPHIC AREA



\*NET OPERATING INCOME IS DEFINED AS REVENUE LESS PROPERTY OPERATING EXPENSES.

THE SUCCESSFUL IMPLEMENTATION OF CONSOLIDATED PROPERTIES' STRATEGIC PLAN IS REFLECTED IN THE CONCENTRATION OF PROPERTY TYPE - TO ALMOST EXCLUSIVELY OFFICE BUILDINGS - AND OF GEOGRAPHIC LOCATION OF PROPERTIES - TO ALMOST EXCLUSIVELY ALBERTA.

## THE STRATEGIC PLAN

	2001	2002	2003	2004*
Properties designated for sale Jan 01	16			
Properties designated for sale Sep 01	24		1	
Properties sold	16	17	4	2
Properties acquired		5	1	2
Mortgages retired		28	5	2
Mortgages renewed		6	3	1
New mortgages		10	3	2
Geographic diversity - provinces	6	4	3	3
Asset diversity - product types	5	3	2	2

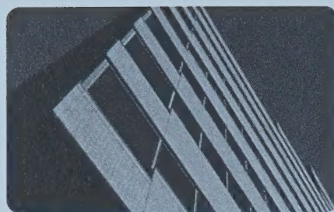
## THE STRATEGIC PLAN

(\$ MILLIONS)	2001	2002	2003	2004*
Properties sold	\$39.2	\$82.1	\$13.6	\$20.8
Properties acquired	-	70.6	21.3	32.3
Mortgages repaid	28.1	87.2	12.5	13.5
Mortgages renewed	-	14.0	15.5	0.7
New mortgages	-	55.6	45.8	5.6

\* as of March 16, 2004



520 - 5TH AVENUE SW, CALGARY



833 - 4TH AVENUE SW, CALGARY



ATRIUM I, CALGARY



ATRIUM II, CALGARY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

*This management discussion and analysis has been written with the view of enabling readers to view the Company through the eyes of management. It is intended to complement and supplement the financial statements, to have a forward-looking orientation, and to focus on management's strategy for generating value, within the context of risk facing the Company. It should be read in connection with the audited financial statements of Consolidated Properties Ltd. for the years ended December 31, 2003 and 2002. Additional information relating to the Company, including the Annual Information Form, may be viewed on Sedar at [www.sedar.com](http://www.sedar.com).*

### VISION, CORE BUSINESS AND STRATEGY

Consolidated Properties Ltd. (Consolidated) is a real estate company focused on downtown office property with opportunity for enhancement and increase in asset value. The Company believes that real estate is a local business and in order to maximize asset value, must have a hands-on property management approach and must have strong relationships with its property managers, tenants and brokers. This approach promotes new leasing, facilitates renewal of tenants on maturity, and should lead to reduced transaction costs.

Recently, the Company invested in value add assets within close proximity of its management team, and plans to enhance asset value by lease-up, by effective debt restructuring and by repositioning the asset through capital improvement.

Value add assets require significant cash for purposes of leasing and tenant inducements, resulting in a reduced, shorter term cash on cash yield. The offset however, is a longer term outlook during which management believes a significant increase in asset value can be captured by way of subsequent upward financing of the asset.

With approximately 640,000 square feet of office product in Calgary and approximately 800,000 square feet in Edmonton, the Company has critical mass in each of the two cities. The management team has experience in the office real estate sector and utilizes its market knowledge to add value to these assets in its own backyard.

Consolidated will invest in real estate in distant markets. However, assets with proper risk adjusted cash flow potential and critical mass are key considerations.

In September 2001 the Company developed a strategic plan of focusing its real estate portfolio by disposing of a mix of residential, retail and industrial assets geographically dispersed throughout Canada and redeploying the resulting capital into downtown office property. Of the 24 properties in the portfolio, at that time, only two non-core assets remain. As of the date of this report, seven new, well located, office buildings with square footage totaling just under 1.5 million in the cities of Edmonton and Calgary have been added to the portfolio.

### KEY PERFORMANCE DRIVERS

The successful performance of a real estate company is based on a number of key activities; including leasing, financing, day-to-day management of the property and effective acquisition of assets.

#### *Leasing*

Consolidated's leasing objective is to outperform market with respect to rental rates, vacancy and tenant retention. Specific goals include high renewal ratios, timely renewals, leases with varying maturities, step increases in rent, triple net leases, minimum vacancy down time, market rental rates, minimum real estate taxation and efficient operating costs.

Returns on leasing are evaluated based on net effective rent; that is, the present value of future rental income, taking into account the current cost of tenant inducements and leasing commissions.

### *Financing*

Consolidated recognizes the importance of mortgage financing and fosters good relationships with its lenders and mortgage brokers.

The Company utilizes term debt with loan to value ratios ranging up to 80 percent to acquire real estate assets. As the value of real estate increases, the Company may refinance an asset, thereby increasing term debt and redeploying the loan proceeds to operations and acquisition of assets.

Mortgage financing is arranged by taking into account the interest rate environment and the specific strategy for the asset. The lease expiry dates, projected occupancy and budgeted capital improvement projects are all considered.

Five year terms with fixed interest rates are typically arranged for income producing properties, whereas short term, open mortgages, with floating rates will be arranged for properties held for sale. Where possible, recourse is limited to the property only.

### *Property Management and Leasing*

Effective onsite property management, combined with the managers' in house leasing where practical, or an exclusive agreement with a leasing agent when not, enhances tenant relations and includes efficient economical building operation and optimum common area operating costs.

In our view, by employing the above, the ratio of renewals is increased and the cost of lease rollover is reduced. Consolidated therefore takes those factors into account when choosing its third party property managers.

The Company utilizes Aspen Property Management Ltd. for the property management of 1.05 million square feet of its 1.82 million square foot portfolio. The remaining 770,000 million square feet is managed by unrelated third parties. Consolidated plays an active role in the management of these assets however; through a full time asset manager who oversees property management.

### *Effective Acquisition of Assets*

The successful performance of a real estate portfolio is dependent upon the quality of assets acquired and the strategic competitive advantages of the company's presence in the market.

With the assistance of third party expert consultants Consolidated's due diligence evaluations include; detailed discounted cash flow analysis', projected cash flows from operations, anticipated capital expenditures, lease evaluations, market review, leasing turnover, lease rollover costs, mortgage assumptions and renewals, review of all legal agreements, property titles and zoning affecting the property and environmental, mechanical, structural and electrical assessments.

### *CAPABILITY TO DELIVER RESULTS*

A company's ability to execute strategy and deliver results is dependent upon its capital resources, its non financial resources, its systems and its processes.

Liquidity, effective risk management and access to capital, be it debt or equity, supported by human resources with good governance practice, sound business management skills, timely accurate information and strong internal controls, are key objectives for Consolidated.

### *Capital Resources and Liquidity*

The Company believes in maintaining adequate cash reserves in order to meet obligations and has improved upon this objective over the last two years.

As at December 31, 2003 current assets, including cash, receivables and prepaid expenses, exceeded short term liabilities by approximately \$3.8 million; as compared to \$3.3 million a year earlier. This represents a significant change from December 31, 2001 when short term liabilities exceeded short term assets by approximately \$1.5 million. The Company's liquidity has improved with the disposition of real estate assets throughout 2002 and 2003. Subsequent to the year end two assets were sold and two assets were acquired, resulting in a net reduction in cash of \$0.5 million.

Cash flow from operations in 2003 totaled \$3.7 million, or \$0.04 per share, as compared to \$1.8 million or \$0.02 per share in 2002. Cash flow from operations per share is calculated by dividing cash flow from operations by the weighted number of shares.

Although the Company repaid subordinated debentures and vendor take back mortgages totaling \$8.97 million in 2001 and 2002, the percentage of loan to book value and debt to equity ratios increased through to 2002.

These increases were due to the posting of reductions in carrying value of income producing properties and properties held for sale totaling \$19.567 million in 2000, \$19.746 million in 2001 and \$8.861 million in 2002, and the resulting situation with one loan being approximately \$2.5 million in excess of the book value of the related assets. Without this loan and related asset, the loan to value ratio would be 84% and the debt to equity ratio would be 2.06.

A lump sum payment of \$1.0 million on the Yellowknife property first mortgage has improved the ratios slightly in 2003.

We anticipate that this leverage will move downward over time as property values increase.

	Loan to Value (%)	Debt to Equity (times)
1999	66	2.56
2000	76	2.70
2001	85	3.18
2002	91	3.06
2003	86	2.75

Consolidated Properties has budgeted approximately \$4.4 million in costs for signing tenants for the year ended December 31, 2004. These amounts are normal to the Company's operations and are required in order to quickly and effectively lease vacant space and renew existing leases in the real estate portfolio. These costs will be paid for with cash on hand and funds from operations.

#### *Non Financial Resources, Systems and Processes*

A company's performance and results are dependent upon the human resources that direct and execute strategy.

Consolidated's Board of Directors are seasoned business executives with direct expertise in commercial real estate. Members of the management team likewise, are experienced in commercial real estate and are compensated in

accordance with industry standards. Training, education and mentoring are key components in the senior executives' development. All members of management have graduate or post-secondary education, including MBA's, finance specializations and/or professional accounting designations.

The Company has extended relationships with legal and financial advisors, mortgage brokers, sales and leasing agents, investment bankers and property managers. These extended, invaluable relationships provides access to sourcing business and enhance the decision making process of the Company.

The Company utilizes the Argus forecasting model for valuation and budgeting purposes and the Yardi system for financial reporting and asset and property management.

Exceptional corporate governance is highly sought after and internal controls are strong with numerous levels of approval standard.

## RISK AND UNCERTAINTY

### *Interest Rates and Debt Maturities*

Interest rate fluctuations pose significant risk to real estate companies. Therefore, when strategically appropriate, Consolidated Properties attempts to negotiate mortgage renewals with fixed rates of interest and with varying dates of maturity.

Consolidated maintains high levels of debt, and mortgages its assets to maximum leveraged yields. This leverage however, is not without regard for the projected cash flow of the property and the present and anticipated interest rate environment.

During the balance of 2004, term debt totaling approximately \$33.1 million will mature. Of this amount \$7.5 million will be replaced with a new lender on more favorable terms and conditions, \$23.9 million will be renewed with existing lenders on similar terms and conditions, and \$1.7 million will be repaid through monthly amortization.

The amount and percentage of term debt maturities over the next five years, taking into account the acquisition and

disposition of real estate assets subsequent to year end, is as follows:

	\$ millions	%
2004	\$33.1	28
2005	2.0	2
2006	17.0	14
2007	20.3	17
2008	1.0	1
2008 and beyond	44.1	38
	\$117.5	100

Corporate guarantees by Consolidated have been provided on \$75.4 million of this amount. As at the date of this report all mortgage payments are current.

During the year the Company was successful in slightly reducing its weighted average cost of interest to 7.1 percent from approximately 7.3 percent in 2002. Interest rates are anticipated to remain at all time lows and therefore the cost of debt financing at maturity should decrease slightly in the upcoming year. Mortgage loans arranged on the March 2004 acquisitions were placed with ten year terms and rates of interest at approximately 6.6 percent.

#### *Financial Commitments and Contingencies*

In addition to the above mortgage obligations, Consolidated has commitments and contingencies, as follows:

Ground lease payments	\$750,000 annually through to 2035
Mortgage reserve funds	\$365,142 in 2004, \$298,642 in 2005 and \$469,207 thereafter
Assumed lease obligations	\$365,000 in 2004
Corporate mortgage guarantee	\$2,500,000 until mortgage maturity on February 1, 2006

#### *Lease Expiries and Renewals*

In order to minimize risk associated with loss of revenue on lease expiry and costs associated with renewing and re-tenanting, management attempts to negotiate leases with varying maturities.

The percentage of expected lease expiries over the next five years, excluding those on properties acquired in March 2004 is as follows:

2004 – 25%
2005 – 16%
2006 – 14%
2007 – 17%
2008 and beyond - 28%

It is anticipated that leasing activity during 2004 will continue to be competitive. The Company's property management philosophy includes the construction of office show suites in certain of the Company's office buildings in order to assist with leasing and quick tenant occupancy.

#### *Asset Concentration*

The Corporation's portfolio of assets as of the date of this report consists of five downtown class B office buildings in Calgary; two class A office buildings in Edmonton, one retail asset in Winnipeg, Manitoba and one retail/office asset in Yellowknife, Northwest Territories.

Following disposition of the two non-core real estate assets, the result will be a geographic concentration in one province, in one real estate product type, leaving Consolidated exposed to the economic and political climate in Alberta.

Statistics indicate that approximately 60 to 80 percent of all downtown Calgary businesses are related to the oil and gas industry. Consolidated's Calgary portfolio is located in the downtown and hence very much affected by activity in Alberta's oil and gas industry, where approximately 35 percent of Consolidated's assets are located.

Edmonton's economy is also dependent on the oil and gas industry, but to a lesser extent; as approximately 35 percent of the downtown office market is occupied by government tenants, resulting in an economy that tends to fluctuate less dramatically than that of Calgary.

For these reasons the Company's investments were expanded to the City of Edmonton during 2003. We are confident about the future economic prospects for the province of Alberta and like the potential diversity by investing in both Edmonton and Calgary. We believe the "Alberta Advantage" will bode well for Consolidated Properties.

## REVIEW OF FINANCIAL RESULTS

A comparison of current results with past performance is not yet particularly meaningful, nor is it indicative of future anticipated operating performance, given the ongoing restructuring of the Company.

A review of the capital transactions over the last number of years provides a more relevant context for understanding the Company's position.

### *Capital Transactions*

A partial takeover of Consolidated was completed in November 2000, following which there was a complete change in the Company's personnel: its board, its management and its staff and a change in the portfolio from that of being a mix of geographically dispersed retail, industrial, residential and long term care assets; to downtown, value add, multi-tenant office buildings. The decision to dispose of the real estate assets resulted in a revaluation of the entire portfolio and reductions in carrying value to reflect net realizable value. (\$19.746 million in 2001 and \$8.861 million in 2002.)

The majority of assets on hand at the date of take-over have since been disposed of and the funds redeployed to operations, repayment of debt and the purchase of office property.

At present, only two of the assets held in 2000 remain in the portfolio. Although it was originally anticipated that these would be sold by early 2004, it is now anticipated the sales will be delayed further.

Once the two non-core assets are sold, the operating results will be reflective of a pure play Alberta based office portfolio, permitting meaningful comparisons of results to be made. As of the date of this report, the Company's income producing properties consist strictly of the office segment, while properties held for sale include retail and office segments. Since 2001, Consolidated has exited from the industrial, residential and long term care real estate segments.

Consolidated's asset base increased by approximately \$10.2 million to \$148.9 million at the end of 2003 from \$139.5 million at the end of 2002. The asset base increased a further \$7.9 million to \$156.8 million through to the date of this report.

Significant events that have occurred since 2001 include the following:

### 2002

- The sale of 17 properties for \$82.1 million, resulting in a gain of \$5.7 million (throughout all quarters).
- The placement and or restructuring of 44 debt transactions totaling \$156.8 million (throughout all quarters).
- The purchase of 5 properties for \$70.6 million (1st quarter).
- Repayment of the \$3.72 million Series II convertible debenture (3rd quarter).
- Retirement of the \$1.0 million Series 1 preferred shares (4th quarter).
- Receipt of \$3.99 million of notes receivable (4th quarter).

### 2003

- The sale of four properties for \$13.1 million, resulting in a gain of \$0.9 million (1st quarter).
- The issue of 4.8 common shares at \$0.25 per share for the purchase of 36.75 percent of the Calgary Medical Centre (1st quarter).
- Conversion of \$3.7 million, seven percent convertible debenture and issue of 14.8 million common shares (1st quarter).
- Receipt of \$1.86 million in satisfaction of notes receivable (2nd quarter).
- The purchase of 1 property for \$21.3 million (3rd quarter).
- The placement and or restructuring of 11 debt transactions totaling \$73.8 million (throughout all quarters).

### 2004 (TO THE DATE OF THIS REPORT)

- The sale of the discontinued operation for \$14.3 million, resulting in net proceeds of \$3.9 million.
- The disposition of a property held for sale for \$6.5 million, resulting in net proceeds of \$3.4 million.
- The purchase of a 50 percent interest in two income producing properties for \$32.3 million, financed with first mortgages of \$24.1 million and cash of \$8.2 million.

These transactions resulted in a balance of cash of \$6.5 million at December 31, 2003, and a balance of approximately \$6.0 million following the disposition of assets in February 2004 and the acquisition of assets in March 2004.

### *Results from Operations*

Consolidated's real estate operating income increased from \$3.9 million in 2002 to \$5.3 million in 2003. Of this amount \$2.1 million pertained to income producing properties and \$3.2 million to properties held for sale. Included in the amount attributed to properties held for sale however, was a one time \$3.1 million receipt during the first quarter of 2003 in respect of outstanding rental arrears and lease obligations.

Although real estate assets have increased by approximately \$10.0 million from one year to the next, total real estate revenue has decreased due to the timing of acquisition of real estate assets. Four assets were sold in the first quarter of 2003; however the resulting proceeds were not redeployed until eight months later at the end of the third quarter.

A reduction of interest on term debt by approximately \$1.5 million relates to a reduced real estate portfolio for a period of 8 months during the year, a reduction of the weighted cost of interest and the repayment of the \$3.72 million Series II convertible debentures in July 2002.

The net loss of \$5.6 million in 2002 included a one time \$5.5 million non-cash reduction in value of real estate, net of future taxes, and a \$2.3 million allowance against future taxes, whereas the net loss of \$2.0 million in 2003 included a one-time, non-cash \$2.0 million allowance against future income taxes. Adjusted for all non-cash items, cash flow from operations was \$3.7 million in 2003 and \$1.8 million in 2002.

The debt service coverage ratio is improving (0.96 in 2000, 0.85 in 2001, 0.80 in 2002 and 1.00 in 2003). This ratio, which is calculated by dividing revenue less property operating expenses, corporate services and taxes by total debt service, will continue to improve once the sale of the remaining non-core assets is completed.

### SELECTED ANNUAL INFORMATION

\$THOUSANDS	2003	2002	2001
Total revenue	\$25,684	\$27,330	\$30,940
Property operating expenses	14,191	15,667	16,149
Net operating income	11,493	11,663	14,791
Interest on term debt	6,216	7,745	9,342
Real estate operating income	\$5,277	\$3,918	\$5,449
Gain on sale of real estate	\$936	\$5,729	\$(484)
Income (loss) before discontinued operations and other items	\$786	\$2,745	\$(3,263)
Reduction in value of real estate	-	(8,861)	(19,746)
Discount on notes receivable	(87)	(34)	(1,500)
Costs on takeover and re-organization	-	(96)	(1,247)
Income taxes	(3,190)	578	7,980
Loss before discontinued operations	(2,490)	(5,668)	(17,776)
Discontinued operations	486	77	-
Net loss	\$(2,004)	\$(5,591)	\$(17,776)
Loss before discontinued operations, per share basic and fully diluted	\$(0.02)	\$(0.06)	\$(0.22)
Net loss per share, basic and fully diluted	\$(0.02)	\$(0.06)	\$(0.22)
Total assets	\$148,860	\$139,545	\$160,755
Total long term financial liabilities	\$96,474	\$93,316	\$116,334
Cash dividends per share	\$ -	\$ -	\$ -

*The above financial data has been extracted from the annual audited financial statements, which have been prepared in accordance with generally accepted accounting principles.*

Proceeds on sale of non-core assets have been used to reposition the portfolio. However, since there is not always an immediate redeployment of capital, real estate profits decline in the short term as excess funds are invested in liquid interest bearing investments.

This is especially evident considering the following purchases of assets made by Consolidated: the acquisition of the four office properties from Summit REIT in March 2002, the acquisition of the ING Building in September 2003, and the acquisition of 50 percent interests in Scotia Place and 505 – 3rd Street SW from Morguard REIT in March 2004; combined with the disposition of assets which occurred predominately throughout 2002.

The following summary of quarterly results highlights this point.

#### SUMMARY OF QUARTERLY RESULTS

CAD\$THOUSANDS	2003				2002			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Total revenue	\$7,029	\$5,428	\$5,613	\$7,614	\$6,629	\$6,166	\$7,102	\$7,433
Gain on sale of real estate	\$ -	\$ -	\$ (8)	\$ 944	\$ (15)	\$ 468	\$ (70)	\$ 5,346
Income (loss) before discontinued operations and other items	(944)	(639)	(698)	3,067	(1,550)	302	(709)	4,702
Reduction in value of real estate	-	-	-	-	(6,723)	-	(2,138)	-
Discount on notes receivable	-	-	-	(87)	-	-	-	(34)
Costs on takeover and re-organization	-	-	-	-	-	-	-	(96)
Income taxes	(1,805)	95	(87)	(1,393)	624	(250)	986	(782)
Income (loss) before discontinued operations	(2,748)	(544)	(785)	1,587	(7,649)	52	(1,861)	3,790
Discontinued operations	121	103	206	56	23	55	(1)	-
Net income (loss)	(2,627)	(441)	(579)	1,643	(7,626)	107	(1,862)	3,790
Total for the year	(2,004)				(5,591)			
Net income (loss) before discontinued operations, per share basic and fully diluted	\$ (0.03)	\$ 0.00	\$ (0.01)	\$ 0.02	\$ (0.09)	\$ 0.00	\$ (0.02)	\$ 0.05
Net income (loss) per share, basic and fully diluted	\$ (0.03)	\$ 0.00	\$ (0.01)	\$ 0.02	\$ (0.09)	\$ 0.00	\$ (0.02)	\$ 0.05

*The above financial data has been extracted from the quarterly financial statements, which have been prepared in accordance with generally accepted accounting principles.*

The fourth quarter results in 2003 included the full impact of the ING Building, the purchase of which was completed late in September. The results also include an allowance against the value of the tax loss carry forwards totaling \$25.7 million. In assessing the Company's ability to utilize the non capital losses within the permitted seven year carry forward, management determined that a total allowance of \$4.3 million was required, resulting in the recording of an allowance of \$2.0 million in the fourth quarter of 2003.

As we move forward beyond the second quarter of 2004, with a pure play portfolio of income producing properties in the office segment, we should see operating results that are more consistent from quarter to quarter.

#### SUBSEQUENT EVENTS

As described in the subsequent event note to the financial statements, Consolidated disposed of two non-core assets in February 2004 and acquired a 50 percent interest from

Morguard REIT in two office properties in March 2004, resulting in a net decrease in cash of approximately \$0.5 million.

The assets acquired are good quality downtown office properties comprising 670,000 square feet and will improve the Company's cash flow and the certainty of the cash flow generated through these of real estate assets.

#### CRITICAL ACCOUNTING ESTIMATES

Non capital loss carry forwards may be carried forward seven years from the year incurred and applied against future taxable income of the Corporation. Estimates of future operations and taxable incomes for a period of seven years are required in determining the value of such losses.

Management has projected the taxable income of the Corporation through to 2010 and has determined that a total allowance of \$4.3 million should be recorded against the \$25.7 million of losses carried on the books at \$9.0 million.

In determining estimates of net recoverable amounts for income producing properties and fair values for properties held for sale, the Company relies on assumptions regarding applicable industry performance and prospects, as well as general business and economic conditions that prevail. Assumptions underlying asset evaluations are limited by the availability of reliable comparable data and the uncertainty of predictions concerning future events.

By nature, such estimates and projections are subjective and may not produce precise determinations. Should underlying assumptions change, the value of the future income tax assets and income producing properties and properties held for sale may change.

#### CHANGES IN ACCOUNTING POLICY

A number of accounting pronouncements related to the real estate industry were released throughout 2003. Some of these impact the corporation this year, while others are effective January 1, 2004. A summary of the changes are described below.

##### *Primary sources of GAAP*

In October 2003, the Canadian Institute of Chartered Accountants "CICA" issued Accounting Handbook Section 1100, which will require all entities to prepare financial statements in accordance with the primary source of GAAP, as defined therein. This amendment is effective for all fiscal years commencing on or after October 31, 2003.

Consolidated will implement this requirement with its 1st quarter financial statements as at March 31, 2004.

##### *Discontinued Operations*

Pursuant to Section 3475 "Disposal of Long-Lived Assets and Discontinued Operations" and effective with the disposition of assets initiated by the commitment to a plan subsequent to May 1, 2003, the Corporation has recorded the operations of 8TH & 8TH Medical Centre Ltd. as a discontinued operation effective November 6, 2003. The revenues and expenses for the years ended December 31, 2003 and 2002 have been reclassified as income from discontinued operations, and the assets and liabilities have been segregated as such as at December 31, 2003 and 2002.

The operation was disposed on February 11, 2004.

##### *Amortization of Real Estate Assets*

Effective January 1, 2004, the sinking fund method of amortization currently used for real estate properties will no longer be used as a result of adopting CICA Handbook Section 1100. The CICA Handbook requires that buildings be amortized on a systematic and rational basis over their useful lives. Accordingly, effective January 1, 2004, the Corporation will amortize the building costs of its real estate properties on a straight line basis. This method of amortization will result in higher amortization expense in the first half of the buildings' useful lives and lower amortization expense for the balance of the years, as compared to amounts that would have been expensed under the current sinking fund policy. For the year ended December 31, 2004, amortization expense will be higher than would have been reported under the existing policy by approximately \$1,737,000.

##### *Straight line stepped rents*

The Corporation currently records rental revenue on stepped rent leases as they occur in accordance with the lease documents. Such rental steps are intended to account for inflation during the lease term. In accordance with the primary source of Canadian GAAP, the Corporation will account for stepped rents on a straight line basis, over the term of the lease, effective January 1, 2004, applied prospectively. Income from existing leases will be approximately \$214,000 higher in 2004 than would have been reported under the current policy.

##### *Acquisition of operating leases*

On September 12, 2003, the Emerging Issues Committee "EIC" of the CICA issued EIC 140, Accounting for Operating Leases Acquired through either an Acquisition of an Asset or a Business Combination. Implementation of this abstract requires that, to the extent possible, a portion of the purchase price of the acquired asset be assigned to identifiable intangibles, in addition to tangible assets. Such intangibles include in-place leases acquired as a result of a business combination. The allocation of the purchase price to intangible assets will impact the timing of the amortization of leasing and building costs. Leasing costs are amortized over the term of the lease, generally between one to five years, whereas building costs are amortized over 25 years. This will result in higher amortization costs in earlier years following an acquisition. This

treatment will be applied prospectively to all acquisitions or business combinations commencing after September 12, 2003. As at the date of this report, the allocation of the purchase price of the March 2004 office property acquisitions to tangible and intangible assets has not been determined.

## TRANSACTIONS WITH RELATED PARTIES

### *Transactions with Aspen Properties Ltd.*

Aspen Properties Ltd. is a majority holder of the outstanding common shares of Consolidated Properties Ltd. The two companies share office space, computers and equipment and engage many of the same employees.

During the year Aspen increased its ownership position to 51.07 percent with the conversion of a seven percent, \$3.7 million convertible debenture into 14.78 common shares and the receipt of 4.85 million common shares on the sale of the remaining 36.75 percent interest in 8th & 8th Medical Centre Ltd. to Consolidated. Debenture interest of \$25,000 and \$182,000 was paid in the years ending December 31, 2003 and 2002, respectively.

### *Transactions with Aspen Property Management Ltd.*

Aspen Property Management Ltd., a wholly owned subsidiary of Aspen Properties Ltd., provides property management and leasing services to Consolidated Properties Ltd. The property management agreements provide for the payment of management fees, administrative fees and leasing commissions, all of which are at market.

During the years ended December 31, 2003 and 2002, the following fees were paid by Consolidated to Aspen Property Management Ltd.

	2003	2002
Management fees	\$ 603,000	\$ 341,000
Leasing commissions	214,000	10,000
Administration and document prep fees	55,000	—
	<u>\$ 872,000</u>	<u>\$ 351,000</u>

The change between 2003 and 2002 was related to the repositioning of the portfolio to Calgary where critical mass and proven market expertise previously existed.

## OUTSTANDING SHARE CAPITAL

As at the date of this report, Consolidated Properties Ltd. has 95.0 million common shares outstanding. A consolidation of common shares on the basis of one for nine will be completed before the end of the 1st quarter of 2004, resulting in an issued and outstanding number of common shares of 10.2 million.

## OUTLOOK

Management anticipates continuing to grow the real estate portfolio and increasing investment in office property. Depending on the size and nature of the investment we may do so by utilizing our own resources or by joint venturing with a partner. We are confident in the current economic environment in the province of Alberta, and management believes that interest rates in Canada will continue to remain relatively low. We will look to acquire well located, downtown office property for prices significantly less than replacement cost, and with rental rates that are at, or below current market. Liquidity will continue to be provided by upward financing.

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*Prepared by Management as of March 17, 2004*

### *Caution Regarding Forward-Looking Information*

*This document contains forward looking information that involves risks and uncertainties which may cause actual results to differ materially from the statements made. For this purpose, any statements contained herein that are not statements of historical fact may be deemed to be forward looking statements. Without limiting the foregoing, the words "expects", "anticipates", "estimates", "projects", and similar expressions are intended to identify forward looking statements.*



## Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements and information included in this Annual Report have been prepared by the management of the Company, which is responsible for their consistency, integrity and objectivity. The Company maintains appropriate systems of internal control, policies and procedures to ensure that its reporting practices and accounting and administrative procedures are high quality, efficient and produce information at a reasonable cost.

PricewaterhouseCoopers LLP, the independent auditor appointed by the shareholders, is responsible for auditing the consolidated financial statements and for giving an opinion thereon.

The consolidated financial statements have been reviewed and approved by the Board of Directors and its Audit Committee. This Committee meets on a regular basis with management and the auditors who have full access to the Committee.



March 17, 2004

R. Scott Hutcheson  
*President and CEO*



Veronica D. Bouvier  
*Senior Vice President,  
Accounting and Administration*

## Auditor's Report

March 5, 2004 (except for note 20, which is as of March 17, 2004)

### To the Shareholders of Consolidated Properties Ltd.

We have audited the consolidated balance sheets of Consolidated Properties Ltd. as at December 31, 2003 and 2002 and the consolidated statements of operations and deficit, cash flow from operations and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



*Chartered Accountant*

# Consolidated Balance Sheets

AS AT DECEMBER 31, 2003 AND 2002

2003

2002

\$

\$

## ASSETS

Income producing properties (note 3)	77,199,525	65,721,015
Properties held for sale (notes 4 and 20)	34,962,197	36,859,738
Assets from discontinued operations (notes 5 and 20)	17,279,162	15,638,131
Note receivable (note 6)	-	1,941,932
Future income taxes (note 15)	7,346,285	9,498,223
Prepaid expenses	1,285,501	1,118,585
Other assets (note 7)	1,920,055	1,625,066
Restricted cash (note 19)	1,921,769	1,879,857
Accounts receivable	440,847	544,907
Cash and cash equivalents	6,504,254	4,717,806
	<u>148,859,595</u>	<u>139,545,260</u>

## LIABILITIES

Term debt (notes 9 and 20)	96,473,723	93,315,734
Liabilities from discontinued operations (notes 5 and 20)	13,017,023	11,112,153
Accounts payable and accrued liabilities	4,479,630	3,126,020
Security deposits and prepaid rent	759,664	544,330
	<u>114,730,040</u>	<u>108,098,237</u>
Minority interest (note 10)	-	954,217

## SHAREHOLDERS' EQUITY


Capital stock (note 11)	36,214,428	31,384,688
Equity component of convertible debentures (note 9)	-	185,000
Contributed surplus (note 11)	5,134,287	4,947,544
Deficit	(7,219,160)	(6,024,426)
	<u>34,129,555</u>	<u>30,492,806</u>
	<u>148,859,595</u>	<u>139,545,260</u>

Contingencies and commitments (note 19)

See accompanying notes to consolidated financial statements.

Approved by the Board of Directors:

  
 Director

  
 Director

# Consolidated Statements of Operations and Deficit

FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002	2003 \$	2002 \$
Revenue	25,683,713	27,329,683
Property operating expenses	14,190,719	15,666,862
	11,492,994	11,662,821
Gain on sale of income producing properties and properties held for sale	935,965	5,728,782
	12,428,959	17,391,603
Interest on term debt	6,215,739	7,744,867
Operating income	6,213,220	9,646,736
Corporate expenses	2,188,381	2,698,822
Amortization	3,238,978	4,202,935
Income before the following	785,861	2,744,979
Discount on and provision for loss on notes receivable (note 6)	86,500	33,721
Reduction in carrying value of properties held for sale (note 4)	-	8,861,000
Costs arising from corporate reorganization	-	96,074
Income (loss) before income taxes and earnings from discontinued operations	699,361	(6,245,816)
Provision for (recovery of) income taxes		
Large corporation tax	228,114	198,140
Future (notes 4 and 15)	2,961,478	(775,883)
	3,189,592	(577,743)
Loss before discontinued operations	(2,490,231)	(5,668,073)
Earnings from discontinued operations, net of tax (note 5)	485,956	76,980
Net loss	(2,004,275)	(5,591,093)
Deficit - Beginning of year	(6,024,426)	(20,550,579)
Future taxes resulting from change of control (note 10)	809,541	-
Elimination of deficit (note 12)	-	20,550,579
Redemption of preferred shares (note 11)	-	(350,000)
Dividends on preferred shares (note 11)	-	(83,333)
Deficit - End of year	(7,219,160)	(6,024,426)
Loss per share before and after discontinued operations		
Basic and fully diluted (note 13)	\$(0.02)	\$(0.06)

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Cash Flow from Operations

FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002	2003	2002
	\$	\$
Loss before earnings from discontinued operations	(2,490,231)	(5,668,073)
Adjustment for		
Amortization of stock-based compensation	166,377	397,942
Amortization	3,238,978	4,202,935
Provision for (recovery of) future income taxes	2,961,478	(775,883)
Gain on sale of income producing properties and properties held for sale	(935,965)	(5,728,782)
Discount on and provision for loss on notes receivable	86,500	33,721
Reduction in carrying value of properties held for sale	-	8,861,000
Cash flow from operations before discontinued operations	3,027,137	1,322,860
Earnings from discontinued operations, net of tax	485,956	76,980
Adjustment for		
Amortization	344,535	207,806
Provision for (recovery of) future income taxes	(231,092)	183,323
Minority interest	30,012	32,360
Cash flow from operations of discontinued operations (note 5)	629,411	500,469
Cash flow from operations	3,656,548	1,823,329

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	2003	2002
	\$	\$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Cash flows from operations before discontinued operations	3,027,137	1,322,860
Cash flows from operations of discontinued operations	629,411	500,469
Other assets and prepaid expenses	(428,358)	1,338,613
Accounts receivable	5,833	(158,152)
Restricted cash	(384,037)	(225,501)
Accounts payable and accrued liabilities	1,275,954	(1,356,041)
Security deposits and prepaid rent	213,413	(37,878)
	<u>4,339,353</u>	<u>1,384,370</u>
<b>Financing activities</b>		
Term debt proceeds	4,424,229	–
Principal repayments on term debt	(2,907,406)	(6,757,047)
Financing costs	(439,047)	(704,671)
Cancellation of common shares, preferred shares and related costs	(56,394)	(1,373,500)
Principal repayments on loans and obligations	–	(523,392)
Dividends paid on preferred shares	–	(83,333)
	<u>1,021,382</u>	<u>(9,441,943)</u>
<b>Investing activities</b>		
Disposal of income producing properties and properties held for sale, net of related debt of \$8,966,341 (2002 – \$63,953,320)	3,987,994	22,781,625
Acquisition of income producing properties, net of related debt of \$15,975,000 (2002 – \$44,096,452)	(5,965,961)	(11,139,850)
Additions to income producing properties	(3,468,332)	(4,555,249)
Notes receivable principal repayments	1,855,432	3,987,705
	<u>(3,590,867)</u>	<u>11,074,231</u>
<b>Increase in cash and cash equivalents</b>	<b>1,769,868</b>	<b>3,016,658</b>
<b>Discontinued operations (note 5)</b>	<b>16,580</b>	<b>(22,566)</b>
<b>Net increase in cash and cash equivalents</b>	<b>1,786,448</b>	<b>2,994,092</b>
<b>Cash and cash equivalents – Beginning of year</b>	<b>4,717,806</b>	<b>1,723,714</b>
<b>Cash and cash equivalents – End of year</b>	<b>6,504,254</b>	<b>4,717,806</b>
<b>Supplementary cash flow information</b>		
Interest paid	6,851,727	8,339,871
Income taxes paid	493,376	480,005
Interest received	353,769	558,831

See accompanying notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

DECEMBER 31, 2003 AND 2002

*The Corporation was incorporated under the Business Corporation Act (Alberta) on September 9, 1994 as 624097 Alberta Ltd. and on November 24, 1994, the Corporation changed its name to Consolidated Properties Ltd. On August 26, 1998, the Corporation received a certificate of continuance under the Canada Business Corporations Act.*

*The Corporation's principal business activity is the acquisition, management and sale of income producing properties and properties held for sale.*

## 1. SIGNIFICANT ACCOUNTING POLICIES

### A) BASIS OF PRESENTATION

These financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by the Canadian Institute of Chartered Accountants (CICA) and conform with the accounting recommendations provided by the Canadian Institute of Public Real Estate Companies.

### B) CONSOLIDATION

The consolidated financial statements include:

- i) the accounts of the Corporation;
- ii) the accounts of all wholly owned investments of the Corporation including Consolidated Properties (Alberta) Ltd. And 8th & 8th Medical Centre Ltd.
- iii) the accounts of all incorporated and unincorporated co-ownerships to the extent of the Corporation's proportionate interest in their respective assets, liabilities, revenues and expenses.

### C) CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of liquid investments, such as term deposits, money market instruments, Canadian government securities, bankers' acceptances and commercial paper with maturities of 90 days or less from the date of purchase.

### D) INCOME PRODUCING PROPERTIES AND PROPERTIES HELD FOR SALE

Income producing properties are recorded at the lower of cost less accumulated amortization and net recoverable amount. Net recoverable amount represents the estimated net undiscounted future cash flows from the ongoing use and residual value of the property. If the net recoverable amount is lower than the cost less accumulated amortization, the income producing property will be written down to the discounted cash flows. Properties held for sale prior to May 1, 2003, are recorded at the lower of cost less accumulated amortization and fair value. Fair value represents estimated selling price plus estimated revenues net of costs during the hold period less estimated costs of disposition.

The Corporation follows the sinking fund method of amortization for buildings. Under this method, amortization is charged to income in increasing annual amounts consisting of a fixed annual sum, together with interest compounded at a rate of 5% per annum so as to fully amortize the buildings over their estimated useful lives. The estimated useful lives of buildings are as follows:

Office	25 years
Industrial and retail	20 to 25 years

Included in the cost of buildings are deferred costs related to leasing the office, industrial and retail properties which are being amortized over the term of the leases.

Amortization on remaining assets is provided on a straight-line basis at rates of 20% and 10% per annum.

Effective January 1, 2004 the sinking fund method of amortization currently used for real estate properties will no longer be used as a result of adopting CICA Section 1100. Under section 3061 "Property, plant and equipment" issued by the CICA, buildings are required to be amortized on a systematic and rational basis over their useful lives. Accordingly, from the effective date, the Corporation will amortize the building costs of its real estate properties on a straight line basis. This method of amortization will result in higher amortization expense in the first half of the buildings' useful lives and amortization expense for the balance of the years than would have been expensed under the current policy. In fiscal 2004, building amortization will be higher than would have been reported under the existing policy by approximately \$1,737,000.

#### E) DISCONTINUED OPERATIONS

Pursuant to CICA Section 3475 "Disposal of long-lived assets and discontinued operations" and effective with the disposition of assets initiated by the commitment to a plan on or after May 1, 2003 the Corporation records the operations of such disposition as a discontinued operation. Amortization of the asset is discontinued and the asset is recorded at the lower of cost less accumulated amortization and fair value.

The Corporation has prospectively adopted this standard and applied it to one property which was disposed of subsequent to the fiscal year end.

#### F) CAPITALIZATION OF COSTS

The Corporation capitalizes all direct costs relating to the acquisition of properties.

#### G) DEFERRED FINANCING COSTS

Financing costs are recorded at cost less accumulated amortization and are being amortized on a straight-line basis over the term of the related financing.

#### H) REVENUE RECOGNITION

Revenue from properties includes rents from tenants under leases, percentage rents, property taxes and operating cost recoveries, lease cancellation fees, leasing concessions and parking income. Percentage rent is recognized after the minimum sales level has been achieved in accordance with each lease. All other rental revenue is recognized in accordance with each lease.

Revenue from properties recorded in the statements of income during free rent periods represents future income and is reflected on the balance sheet as other assets and recognized in the statements of income on a straight line basis over the initial term of the lease.

The Corporation records rental revenue on stepped rent leases as per the leases documents. Such rent steps are intended to account for inflation. Effective January 1, 2004, the Corporation will account for stepped rents on a straight line basis over the remaining term of the leases. Income from existing leases in 2004 will be higher by approximately \$214,000 than income that would have been reported under the current policy.

#### I) RECOVERABLE IMPROVEMENTS

Expenditures on behalf of tenants are recorded at cost, in other assets, and recovered from tenants on a straight-line basis over a period of two to fifteen years.

#### J) INCOME TAXES

The Corporation uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

#### K) MEASUREMENT UNCERTAINTY

Financial statements prepared in conformity with generally accepted accounting principles require management to make estimates and assumptions which can affect the reported balances. In determining estimates of net recoverable amounts for its income producing properties and net realizable values for properties held for sale, the Corporation relies on assumptions regarding applicable industry performance and prospects, as well as general business and economic conditions that prevail. Assumptions underlying asset valuations are limited by the availability of reliable comparable data and the uncertainty of predictions concerning future events.

By nature, asset valuations are subjective and do not necessarily result in precise determinations. Should the underlying assumptions change, the estimated net recoverable amounts and net realizable values may change by a material amount.

#### L) STOCK BASED COMPENSATION

The Corporation expenses the cost of stock based compensation at the time such compensation is granted to directors, officers and employees. The amount of compensation is measured when granted and is amortized over the vesting period.

#### 2 CHANGES IN ACCOUNTING POLICIES

##### STOCK-BASED COMPENSATION AND OTHER STOCK-BASED PAYMENTS

Effective January 1, 2002, the Corporation prospectively adopted CICA Section 3870 "Stock-based Compensation and Other Stock-based Payments". These recommendations require that a fair value based method of accounting be applied to all stock-based payments to non-employees, to employee awards that are direct awards of stock or provide for settlement in cash or shares or other assets, and stock appreciation rights that call for settlement by the issuance of equity instruments.

The effect of the adoption of the recommendations has been reflected as an expense of \$166,377 (2002 – \$397,942) and an offsetting charge to contributed surplus.

#### 3 INCOME PRODUCING PROPERTIES

	2003	2002
	\$	\$
Land	15,298,399	13,299,634
Buildings	63,722,903	53,961,955
Equipment	512,250	1,002,695
	<hr/> 79,533,552	<hr/> 68,264,284
Less: Accumulated amortization	2,334,027	2,543,269
	<hr/> 77,199,525	<hr/> 65,721,015

Income producing properties are comprised of office properties.

During the year an income producing property with a net book value of \$15,564,424 (2002 – \$nil) was transferred to discontinued operations (note 5) and an income producing property with a book value of \$10,614,079 (2002 - \$31,609,150) was transferred to properties held for sale (note 4).

#### 4 PROPERTIES HELD FOR SALE

	2003	2002
	\$	\$
Land	3,910,815	2,697,672
Buildings	38,612,268	41,286,550
Equipment	528,856	187,195
	<hr/> 43,051,939	<hr/> 44,171,417
Less: Accumulated amortization	8,089,742	7,311,679
	<hr/> 34,962,197	<hr/> 36,859,738

Properties held for sale are comprised of:

Industrial	-	2,361,274
Office	10,441,615	-
Retail	24,520,582	34,498,464
	<hr/> 34,962,197	<hr/> 36,859,738

June 30, 2002 the Corporation reduced the carrying value of its properties held for sale by \$8,861,000 to reflect net realizable value. A provision for recovery of future income taxes of \$3,411,485 resulted in net reduction of earnings of \$5,449,515 for the year ended December 31, 2002.

## 5 ASSETS AND LIABILITIES FROM DISCONTINUED OPERATIONS

On November 6, 2003, the Corporation entered into an Agreement of Purchase and Sale for the disposition of Calgary Medical Centre. The sale was completed on February 11, 2004 (note 20).

The revenues and expenses for the years ended December 31, 2003 and 2002 have been reclassified as income from discontinued operations, and the assets and liabilities of the discontinued operations have been segregated as such as at December 31, 2003 and 2002.

Additional information related to the discontinued operation is as follows:

### BALANCE SHEET OF DISCONTINUED OPERATIONS

	2003 \$	2002 \$
<i>Assets</i>		
Income producing property	16,669,368	15,564,424
Other assets	156,969	44,655
Restricted cash	342,125	—
Accounts receivable	104,714	6,486
Cash and cash equivalents	5,986	22,566
	<u>17,279,162</u>	<u>15,638,131</u>
<i>Liabilities</i>		
Term debt	10,404,303	8,545,560
Future income tax liability	2,354,009	2,228,305
Accounts payable and accrued liabilities	222,920	300,576
Security deposits and prepaid rent	35,791	37,712
	<u>13,017,023</u>	<u>11,112,153</u>
<i>Net assets from discontinued operations</i>	<u>4,262,139</u>	<u>4,525,978</u>

The term debt bears interest at 6.87%, is repayable monthly with payments of principal and interest of \$72,677, has an amortization period of 25 years and matures May 1, 2008. The debt was assumed by the purchaser on February 11, 2004 (note 20).

### STATEMENT OF EARNINGS OF DISCONTINUED OPERATIONS

	2003 \$	2002 \$
Revenue	3,080,736	2,046,114
Property operating expenses	<u>1,759,150</u>	<u>1,146,270</u>
	1,321,586	899,844
Interest on term debt	<u>659,894</u>	<u>375,463</u>
Operating income	661,692	524,381
Amortization	344,535	207,806
Minority interest	30,012	32,360
Earnings before income taxes	287,145	284,215
Provision for (recovery of) income taxes		
Large corporation tax	32,281	23,912
Future	<u>(231,092)</u>	<u>183,323</u>
	(198,811)	207,235
Earnings of discontinued operations	<u>485,956</u>	<u>76,980</u>

## STATEMENT OF CASH FLOW FROM OPERATIONS OF DISCONTINUED OPERATIONS

	2003	2002
	\$	\$
Earnings from discontinued operations	485,956	76,980
Adjustment for:		
Amortization	344,535	207,806
Minority interest	30,012	32,360
Provision for (recovery of) future income taxes	(231,092)	183,323
Cash flow from operations of discontinued operations	629,411	500,469

## STATEMENT OF CASH FLOWS OF DISCONTINUED OPERATIONS

	2003	2002
	\$	\$
Cash flow from operating activities	(1,677,265)	623,983
Cash flow from investing activities	(111,792)	(474,779)
Cash flow from financing activities	1,772,477	(126,638)
Cash flow of discontinued operations	(16,580)	22,566
Cash and cash equivalents of discontinued operations, beginning of year	22,566	—
Cash and cash equivalents of discontinued operations, end of year	5,986	22,566

## 6 NOTE RECEIVABLE

	2003	2002
	\$	\$
Note receivable		
Note 1	—	2,341,932
Discount on prepayment	—	(400,000)
	—	1,941,932

The note receivable was due on the sale of shares of Mercedes Corporation, which occurred on January 1, 2001, from a company controlled by a former director of the Corporation.

The note receivable bore interest at bank prime plus 1.5%, was payable monthly, was due in total, on June 7, 2005 and was secured by the guarantee of Mercedes Corporation.

The Corporation earned interest of \$32,510 (2002 – \$349,497) on the note receivable during the year ended December 31, 2003.

The Corporation recorded a discount of \$400,000 on Note 1 to reflect an incentive for a prepayment of Note 1 on December 6, 2002.

On April 11, 2003, the Corporation received \$1,855,432 in full satisfaction of the indebtedness. A discount of \$86,500 was provided for early payment of the note receivable.

## 7 OTHER ASSETS

	2003	2002
	\$	\$
Deferred financing costs, net of accumulated amortization of \$696,636 (2002 – \$488,222)	1,134,130	1,189,316
Recoverable improvements	438,445	409,917
Other assets and deposits	347,480	25,833
	1,920,055	1,625,066

## 8 INTERESTS IN CO-OWNERSHIPS AND PARTNERSHIPS

The Corporation's share of assets, liabilities, revenues, expenses and cash flow relating to its proportionate interest in co-ownerships and partnerships is as follows:

	2003	2002
	\$	\$
Assets	-	1,290,582
Liabilities	-	1,311,757
Revenues	114,298	952,814
Expenses	26,078	362,806
Net income	88,220	590,008
Cash provided by (used in)		
Operating activities	91,712	152,013
Investing activities	1,275,551	(54,170)
Financing activities	(1,843,848)	(186,256)

## 9 TERM DEBT

	Weighted average interest rates as at December 31		2003	2002
	2003	2002	2003	2002
	%	%	\$	\$
Mortgages payable				
Income producing properties	7.1	7.1	60,321,926	53,765,826
Properties held for sale	7.1	7.3	36,151,797	36,041,158
Convertible debentures	7.0	7.0	-	3,508,750
			96,473,723	93,315,734

The mortgages mature between January 1, 2004 and December 1, 2008. The mortgages are secured by specific income producing properties and properties held for sale. Guarantees on mortgages on specific properties held for sale aggregating \$600,000 had been provided by previous shareholders of the Corporation. These mortgages were repaid during 2002 on the sale of the properties held for sale.

The 7% convertible debentures totalling \$3,693,750, were issued to Aspen Properties Ltd, a significant shareholder (note 10), and were convertible at the option of the holder into common shares of the Corporation at \$0.25 per share up to maturity on April 17, 2007. On February 6, 2003 Aspen Properties Ltd. exercised its option, resulting in the issue of 14,775,000 common shares by the Corporation.

Canadian generally accepted accounting principles require that term debt, convertible into shares of the Corporation at the option of the holder, be considered a compound financial instrument consisting of a debt and an equity component. Since the provisions of the convertible debentures permitted the Corporation to repay the holders with common shares, the debentures are presented with shareholders' equity net of the debt component. The Corporation had calculated the debt component to be \$3,508,750, being the present value of the required interest payments and principal payment discounted at a rate approximating the interest rate that would have been applicable to non-convertible debt at the time the debentures were issued. The equity portion of the convertible debentures is \$nil (2002 - \$185,000) at December 31, 2003.

Scheduled principal repayments of the mortgages and debentures for the next five years and thereafter are due as follows:

	\$
2004	35,923,194
2005	1,543,847
2006	16,534,435
2007	19,796,574
2008	451,494
Subsequent to 2008	22,224,179
	96,473,723

Term debt totalling \$673,868 matured on February 1, 2004. It is anticipated that this debt will be renewed on similar terms and conditions (note 20).

## 10 MINORITY INTEREST

On April 18, 2002 the Corporation acquired 63.25% of 8th & 8th Medical Centre Ltd. from Aspen Properties Ltd. The Corporation has accounted for the acquisition using the purchase method of accounting. The purchase of \$3,693,750, settled through the issuance of a 7% convertible debenture (note 9), was allocated as follows at the date of purchase:

	\$
Current assets	36,839
Income producing properties	15,320,589
Current liabilities	(64,615)
Future income tax payable	(2,044,982)
Term debt	(8,632,224)
Minority interest	(921,857)
	<u>3,693,750</u>

On February 28, 2003, the Corporation acquired the remaining 36.75% of 8th & 8th Medical Centre Ltd. by issuing 4,851,000 common shares at a price of \$0.25 per share, based on the weighted average trading price and cash of \$726,403. The net proceeds of \$1,939,153 were allocated as follows:

	\$
Income producing property	1,311,720
Future income tax payable	(356,796)
Minority interest	984,229
	<u>1,939,153</u>

The issuance of shares from treasury increased Aspen's ownership to 51.01%. Future taxes of \$809,541, resulting from the change of control of the Corporation, were credited to retained earnings.

The operations of 8th & 8th Medical Centre Ltd. are recorded as discontinued operations (note 5).

## 11 CAPITAL STOCK

### AUTHORIZED

Unlimited number of common voting shares

Unlimited number of preferred shares issuable in series

### ISSUED

	Number of shares	Amount \$
<i>Common shares</i>		
Balance – December 31, 2001	81,437,680	56,000,520
Elimination of deficit (note 12)	–	(20,550,579)
Returned to treasury under normal course issuer bid	(100,000)	(68,740)
Returned to treasury under share issuer trade	(5,813,954)	(3,996,513)
Balance – December 31, 2002	75,523,726	31,384,688
Returned to treasury under normal course issuer bid	(126,500)	(48,282)
Issued on conversion of convertible debenture	14,775,000	3,693,750
Issued on acquisition of investments, net of issue costs of \$28,478	4,851,000	1,184,272
Balance – December 31, 2003	95,023,226	<u>36,214,428</u>

The Corporation received approval from the Toronto Stock Exchange to purchase up to 1,000,000 common shares under a Normal Course Issuer Bid for the period ended February 6, 2004 and 1,000,000 for the period ending February 6, 2003. During 2003, the Corporation purchased for cancellation 126,500 common shares (2002 – 100,000) for total cash consideration of \$27,830 (2002 – \$23,500) resulting in a discount on cancellation of \$20,367 (2002 – \$45,240) which has been recorded to contributed surplus.

Subsequent to December 31, 2003, the Corporation received approval from the Toronto Stock Exchange to purchase up to 1,000,000 common shares under a Normal Course Issuer Bid during the twelve month period ended February 8, 2005.

Contributed surplus increased by \$186,743 (2002 - \$3,073,415) during the year. This consisted of \$20,367 (2002 - \$2,675,473) relating to the cancellation of 126,500 (2002 - 5,913,954) common shares and \$166,376 (2002 - \$397,942) to amortization of stock based compensation.

The shareholders of the Corporation approved a consolidation of common shares on the basis of one for nine at its annual meeting of shareholders on May 5, 2003.

#### SHAREHOLDERS RIGHTS PROTECTION PLAN

The shareholders of the Corporation approved a Shareholder Rights Protection Plan at the September 9, 1999 special meeting of shareholders.

Pursuant to the Shareholders Rights Protection Plan, each shareholder received one right for each outstanding common share held by them. The rights have no economic value and may not be exercised unless and until (a) an individual acquires the beneficial ownership of 15% or more of the outstanding common shares of the Corporation without Board approval (becomes an “acquiring person”), other than pursuant to a permitted bid, (b) the commencement of, or first public announcement of the intent of any person, other than the Corporation or any subsidiary of the Corporation, to commence a takeover bid, or (c) the date upon which a permitted bid ceases to be a permitted bid, or in any circumstances, such earlier or later date as may be determined by the Board of Directors, acting in good faith (collectively, the “separation time”).

Without a postponement of the separation time by the Board of Directors, the occurrence of any of the above mentioned events (“flip-in-events”), entitles all other shareholders to exercise their rights and purchase additional common shares with a market value equal to two times the exercise price of a right, with the initial exercise price being \$3.

On May 7, 2002 the shareholders of the Corporation approved to amend the expiry date of the rights plan to the termination of the annual meeting of shareholders of the Corporation in 2005.

#### PREFERRED SHARES

The Corporation amended its articles of incorporation on January 22, 1997 to designate the first series of preferred shares of the Corporation as Series 1 preferred shares with authorized issuance of 1,000,000 shares at \$1.00 per share. The holders of the shares were entitled to receive a 10% fixed cumulative dividend, payable monthly. The preferred shares were convertible by the holder into common shares up to January 21, 2017. On August 26, 1998, the articles of incorporation were further amended to limit the conversion of Series 1 preferred shares to a maximum of 2,000,000 common shares at a minimum conversion price of \$0.50 per share. If on February 1, 2017, 400,000 of the shares had not been converted, an automatic conversion would occur. The remaining preferred shares were redeemable by the issuer on February 28, 2017 at \$1.00 per share.

The Series 1 preferred shares were acquired by the Corporation on November 18, 2002 for \$1,350,000 and were subsequently cancelled and returned to treasury.

## OPTIONS

Issue / Expiry date	Original granted	Exercise price per share \$	Outstanding December 31, 2002 and 2003 \$
<b>Options</b>			
Directors, officers and employees / January 30, 2007	7,140,000	0.22	1,570,800

## 12 ELIMINATION OF DEFICIT

On May 7, 2002, the shareholders of the Corporation approved by way of a special resolution, a reduction in the stated capital account of \$20,550,579, which brought the Corporation's deficit to zero at January 1, 2002 and reduced the book value of capital stock from \$57,000,520 to \$36,449,941.

## 13 PER SHARE AMOUNTS

Per share amounts are based on a weighted average number of common shares issued and outstanding during the year. The weighted average number of common shares outstanding for the years ended December 31, 2003 and 2002 were 94,560,345 and 80,633,889 respectively. Fully diluted earnings per share, calculated using the treasury stock method, approximates earnings per share.

## 14 RELATED COMPANY TRANSACTIONS

Effective September 1, 2002 Shelter Canadian Properties Limited ("Shelter"), a company affiliated with a director, acquired two properties from the Corporation for net proceeds of \$3,612,557, representing fair market value, resulting in a pre-tax gain of \$278,873. Prior to the acquisition, Shelter provided property management and leasing services. Management fees paid during the year ended December 31, 2003 were \$nil (2002 – \$15,206). During the year, Shelter provided project management services on a property held for sale and received fees of \$15,500 (2002 – \$nil).

The Corporation and Aspen Properties Ltd. share office space, computers and equipment and engage the same employees, the costs of which are allocated based on estimated time spent on each entity. Rent and miscellaneous corporate expenses paid by the Corporation to Aspen Properties Ltd. was \$86,086 (2002 – \$105,910). Net amounts owing by the Corporation in respect of disbursements by Aspen Properties Ltd. on behalf of the Corporation totalled \$nil at December 31, 2003 (2002 – \$35,943).

During the year the Corporation paid interest of \$25,084 (2002 - \$182,056) to Aspen Properties Ltd. in respect of the 7% convertible debenture issued in connection with its acquisition of 8th & 8th Medical Centre Ltd. (note 10).

Commencing April 1, 2002, Aspen Property Management Ltd., a wholly owned subsidiary of Aspen Properties Ltd. entered into an agreement to provide property management services to certain income producing properties held by the Corporation. On May 1, 2003, this agreement was extended to include leasing services.

Fees paid during the years ended December 31, 2003 and 2002 to Aspen Properties Management Ltd. were as follows:

	2003 \$	2002 \$
Management fees	603,055	341,163
Leasing commissions	213,949	10,472
Administration and document preparation fees	55,474	–
<b>Total</b>	<b>872,478</b>	<b>351,635</b>

## 15 INCOME TAXES

Total future income tax (recovery) expense for the years ended December 31, 2003 and 2002 were allocated as follows:

	2003	2002
	\$	\$
Income before the following	2,993,278	2,685,602
Cost arising from corporate reorganization	-	(37,000)
Provision for loss on notes receivable	(31,800)	(13,000)
Reduction in carrying value of income producing properties, properties held for sale and related assets (notes 3 and 4)	-	(3,411,485)
	2,961,478	(775,883)

Income tax expense attributable to earnings before income taxes differs from the amounts computed by applying the combined federal and provincial income tax rate of 37.3 % (2002 – 38.5%) to pre-tax net earnings as a result of the following:

	\$	2003 %	\$	2002 %
Earnings (loss) before income taxes	699,361		(6,245,816)	
Computed "expected" tax expense	260,862	37.3	(2,404,639)	38.5
Increase (reduction) in income taxes resulting from:				
Large corporation tax	228,114	32.6	198,140	(3.2)
Adjustments to future tax assets and liabilities for substantially enacted changes in tax laws and rates	200,937	28.7	705,256	(11.3)
Non-taxable portion of capital gains and losses	329,137	47.1	(878,992)	14.1
Valuation provision	2,000,000	286.0	2,256,792	(36.1)
Amortization of stock based compensation	59,230	8.5	137,290	(2.2)
Other	111,312	15.9	(591,590)	9.5
	3,189,592	456.1	(577,743)	9.3

The tax effects of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities at December 31, 2003 and 2002 are presented below:

	2003	2002
	\$	\$
Future tax assets		
Non-capital loss carry forwards	9,044,694	3,310,897
Deferred financing fees	238,520	32,312
Income producing properties and properties held for sale – difference in net book value and undepreciated capital cost	5,258,773	10,331,243
Less: Valuation allowance	(4,256,792)	(2,256,792)
	10,285,195	11,417,660
Future tax liabilities		
Income producing properties – differences in net book value and undepreciated capital cost	(2,558,046)	(1,785,480)
Deferred financing fees	(380,864)	(133,957)
Net future tax assets	7,346,285	9,498,223

## 16 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The carrying value and fair value of the Corporation's term debt are as follows:

	December 31, 2003		December 31, 2002	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$	\$	\$	\$
Fixed rate	73,885,320	74,116,588	93,315,734	93,876,339
Variable rate	22,588,403	22,588,403	—	—
	96,473,723	96,704,991	93,315,734	93,876,339

Fair value of term debt has been determined using future payments of principal and interest of the actual outstanding term debt, discounted at current interest rates available to the Corporation.

The fair value of notes receivable, accounts receivable, cash and cash equivalents and accounts payable and accrued liabilities approximate their book values due to their short-term nature.

## 17 STOCK-BASED COMPENSATION

The Corporation's Stock Option Plan (the "Plan") allows options to be issued for a term not exceeding 5 years to directors, officers and employees to acquire common voting shares of the Corporation. Under the plan the options are issued at a price equal to the market value of the shares at the time of the grant. No compensation is recognized when stock options are issued pursuant to the plan. Amounts received on exercise of the stock options are credited to share capital.

On January 30, 2002 the Corporation issued 7,140,000 options to directors, officers and employees at an exercise price of \$0.22. The options vested, 25% upon issuance with the remainder to vest at a rate of 25% on their anniversary dates. The fair value of the options has been estimated at \$0.09 per option using the Black-Scholes option pricing model assuming that all of the shares have vested at the date of granting and that the dividend yield is nil, the risk free rate is 4.18%, the expected life of the options is 3.5 years and the expected volatility of the stock is 50%.

The Corporation has expensed, through corporate expenses, \$166,376 (2002 - \$397,942) in respect of stock-based compensation for the year ended December 31, 2003.

## 18 SEGMENTED INFORMATION

The Corporation had four segments: industrial, office, retail and multi-unit residential. Evaluation of segment operating performance is based on real estate operating income, defined for this purpose as revenue less property operating expenses and interest on term debt. Decisions relating to investing and financing activities are made on a corporate basis. The accounting policies of the segments are the same as those described for the Corporation in note 1.

### INCOME PRODUCING PROPERTIES

Information by the office reportable segment as at and for the year ended December 31, 2003:

	Office \$
Revenue	11,233,776
Property operating expenses	(5,748,513)
Interest on term debt	(3,419,810)
Operating income	2,065,453
Income producing properties	77,199,525

Information by reportable segment as at and for the year ended December 31, 2002:

	Office \$	Industrial \$	Total \$
Revenue	10,727,688	68,340	10,796,028
Property operating expenses	(5,443,098)	(5,745)	(5,448,843)
Interest on term debt	(3,160,883)	(36,337)	(3,197,220)
Real estate operating income	2,123,707	26,258	2,149,965
Income producing properties	65,721,015	—	65,721,015

#### PROPERTIES HELD FOR SALE

Information by reportable segment as at and for the year ended December 31, 2003:

	Industrial \$	Retail \$	Office \$	Total \$
Revenue	17,246	10,985,738	3,025,829	14,028,813
Property operating expenses	(3,781)	(6,275,351)	(1,703,032)	(7,982,164)
Interest on term debt	(3,158)	(2,057,833)	(709,848)	(2,770,839)
Operating income	10,307	2,652,554	612,949	3,275,810
Properties held for sale	—	24,520,582	10,441,615	34,962,197

Information by reportable segment as at and for the year ended December 31, 2002:

	Industrial \$	Retail \$	Multi-unit Residential \$	Total \$
Revenue	3,551,388	12,497,204	107,003	16,155,595
Property operating expenses	(1,396,526)	(8,719,734)	(41,760)	(10,158,020)
Interest on term debt	(1,108,637)	(3,056,603)	(29,841)	(4,195,081)
Real estate operating income	1,046,225	720,867	35,402	1,802,494
Properties held for sale	2,361,274	34,498,463	—	36,859,738

Reconciliations of net operating income, income producing properties and properties held for resale from reportable segments are as follows:

	2003 \$	2002 \$
Real estate operating income from reportable segments		
Income producing properties	2,065,453	2,149,965
Properties held for sale	3,275,810	1,802,494
Revenue (expenses) not allocable to reportable segments		
Revenue	421,124	378,060
Expenses	(2,648,423)	(2,854,895)
Interest on term debt	(25,090)	(352,566)
Gain (loss) on sale of income producing properties and properties held for sale	935,965	5,728,782
Discount and provision for loss on notes receivable	(86,500)	(33,721)
Amortization	(3,238,978)	(4,202,935)
Reduction in carrying value of properties held for sale	—	(8,861,000)
Earnings (loss) before income taxes and income from discontinued operations	699,361	(6,245,816)

	2003	2002
	\$	\$
Income producing properties from reportable segments	77,199,525	65,721,015
Properties held for resale from reportable segments	34,962,197	36,859,738
Assets from discontinued operations	17,279,162	15,638,131
Cash and cash equivalents	6,504,254	4,717,806
Other assets	5,568,172	7,110,347
Future income tax assets	7,346,285	9,498,223
Total assets	148,859,595	139,545,260

## 19 CONTINGENCIES AND COMMITMENTS

- A) The Corporation has a commitment relating to a commercial property held for sale, for an annual ground lease of \$750,000 to 2035 with five subsequent renewal periods of five years each. The Corporation has additional commitments for easement agreements through to 2035 for approximately \$150,000 per annum.
- B) The Corporation has guaranteed \$2.5 million of a mortgage of approximately \$7.3 million issued by the mortgagor and assumed by the purchaser on the sale of an income producing property. The mortgage bears interest at 7.36% per annum, is payable monthly with instalments of principal and interest of \$59,276 and matures February 1, 2006. The borrower is current in its mortgage payments. The purchaser has indemnified the Corporation for any obligation under the guarantee.
- C) As a requirement of certain mortgages payable, the Corporation has paid \$2,263,894 into reserve funds to December 31, 2003 (2002 – \$1,879,857) to be used to fund deferred leasing charges and capital improvements as approved by the mortgagor.

The following is a schedule of annual commitments in aggregate by the Corporation to fund these reserves:

	\$
2004	365,142
2005	298,642
2006 and thereafter	469,207
	1,132,991

- D) The Corporation guaranteed a lease on the disposition of a property held for sale in 2002, which could result in a loss of approximately \$315,000 if the premises remain vacant through to October 31, 2004.
- E) The Corporation assumed a lease obligation on the acquisition of an income producing property during 2003, which could result in a loss of approximately \$50,000 if the premises remain vacant through to November 30, 2005.

## 20 SUBSEQUENT EVENTS

### A) DISPOSAL OF PROPERTY HELD FOR SALE AND RENEWAL OF TERM DEBT

The Corporation disposed of a property held for sale for net proceeds totalling \$6.5 million. The terms include cash of \$3.4 million, and assumption of debt by the purchaser of \$3.1 million. The transaction was completed February 1, 2004.

The carrying value of the property disposed was \$6.55 million, resulting in a loss of \$50,000. A provision for recovery of future income taxes of \$17,000 will be recorded, resulting in a net loss of \$33,000.

Subsequent to the year end term debt on a property held for sale totalling \$673,868 matured. It is anticipated that the debt will be renewed on similar terms and conditions.

**B) DISPOSAL OF DISCONTINUED OPERATIONS**

The Corporation disposed of a discontinued operation for net proceeds totalling \$17.3 million. The terms included cash of \$4.3 million and assumption of debt and other liabilities of \$13.0 million. The transaction was completed February 11, 2004.

The carrying value of the discontinued operations, net of a future income tax liability of \$2.4 million, was \$14.3 million (note 5).

**C) ACQUISITION OF INCOME PRODUCING PROPERTIES**

On March 17, 2004 the Corporation completed the acquisition of 50% interests in two income producing properties and other assets for \$32.3 million<sup>(1)</sup>, financed with term debt of \$24.1 million and cash of \$8.2 million.

The effect of the above subsequent events is as follows:

(Unaudited)	December 31, 2003 \$	Property disposition \$	Property acquisition \$	Pro forma December 31, 2003 \$
<b>Assets</b>				
Income producing properties	77,199,525		32,300,000(1)	109,499,525
Properties held for sale	34,962,197	(6,550,000)		28,412,197
Assets from discontinued operations	17,279,162	(17,279,162)		–
Future income taxes	7,346,285	17,000		7,363,285
Prepaid expenses	1,285,501			1,285,501
Other assets	1,920,055			1,920,055
Restricted cash	1,921,769			1,921,769
Accounts receivable	440,847			440,847
Cash and cash equivalents	6,504,254	7,662,139	(8,200,000)	5,966,393
	148,859,595	(16,150,023)	24,100,000	156,809,572
<b>Liabilities</b>				
Term debt	96,473,723	(3,100,000)	24,100,000	117,473,723
Liabilities from discontinued operations	13,017,023	(13,017,023)		–
Accounts payable and accrued liabilities	4,479,630			4,479,630
Security deposits and prepaid rent	759,664			759,664
	114,730,040	(16,117,023)	24,100,000	122,713,017
<b>Shareholders' equity</b>	34,129,555	(33,000)		34,096,555
	148,859,595	(16,150,023)	24,100,000	156,809,572

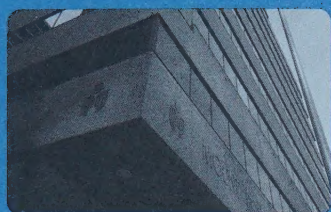
<sup>(1)</sup> The final allocation of the purchase price has not been determined.

Scheduled principal repayments of the mortgages and debentures for the next five years and thereafter are due as follows:

	\$
2004	33,146,045
2005	1,982,619
2006	17,001,998
2007	20,294,818
2008	982,434
Subsequent to 2008	44,065,809
	117,473,723

**21 COMPARATIVE FIGURES**

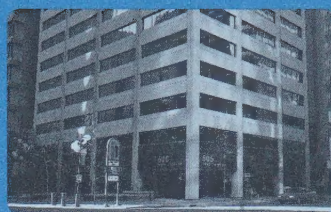
Certain comparative figures have been restated to conform with the financial statement presentation adopted in the current year.



833 - 4TH AVENUE SW, CALGARY



ING BUILDING, EDMONTON



505 - 3RD STREET SW, CALGARY



DOMINION CENTRE, CALGARY

## CORPORATE INFORMATION

### DIRECTORS

ARNI C. THORSTEINSON CFA

CHAIRMAN (1,2)

*President,*

*Shelter Canadian Properties Limited*  
*Winnipeg, Manitoba*

R. SCOTT HUTCHESON M.S., B.S.

*President and CEO,*

*Consolidated Properties Ltd.*  
*Calgary, Alberta*

CHARLES W. BERARD LL.L, LL.B (2,3)

*Partner,*

*Macleod Dixon*  
*Calgary, Alberta*

STEVEN C. FUNK B.A., DDS (1,2)

*Chairman,*

*CML Global Capital Ltd.*  
*Calgary, Alberta*

ERIC C.M. KONG LL.B (3)

*Director,*

*CML Global Capital Ltd.*  
*Calgary, Alberta*

HAROLD P. MILAVSKY B.COMM., FCA (1,3)

*Chairman,*

*Quantico Capital Corp.*  
*Calgary, Alberta*

(1) AUDIT COMMITTEE

(2) COMPENSATION COMMITTEE

(3) GOVERNANCE COMMITTEE

### OFFICERS

R. SCOTT HUTCHESON M.S., B.S.

*President and CEO*

GREGORY A. GUATTO H.B.A.

*Chief Operating Officer*

VERONICA D. BOUVIER B.COMM. (HONS), CA

*Senior Vice President,*

*Accounting and Administration*

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### REGISTRAR AND TRANSFER AGENT

CIBC Mellon Trust Company

600 Dome Tower

Calgary, Alberta

tel: (403) 232-2400

### AUDITORS

PricewaterhouseCoopers LLP

Suite 3100,

111 5th Avenue SW

Calgary, Alberta

### BANKERS

CIBC

### STOCK EXCHANGE LISTING

Toronto Stock Exchange

Symbol: COP

### ANNUAL GENERAL AND SPECIAL MEETING

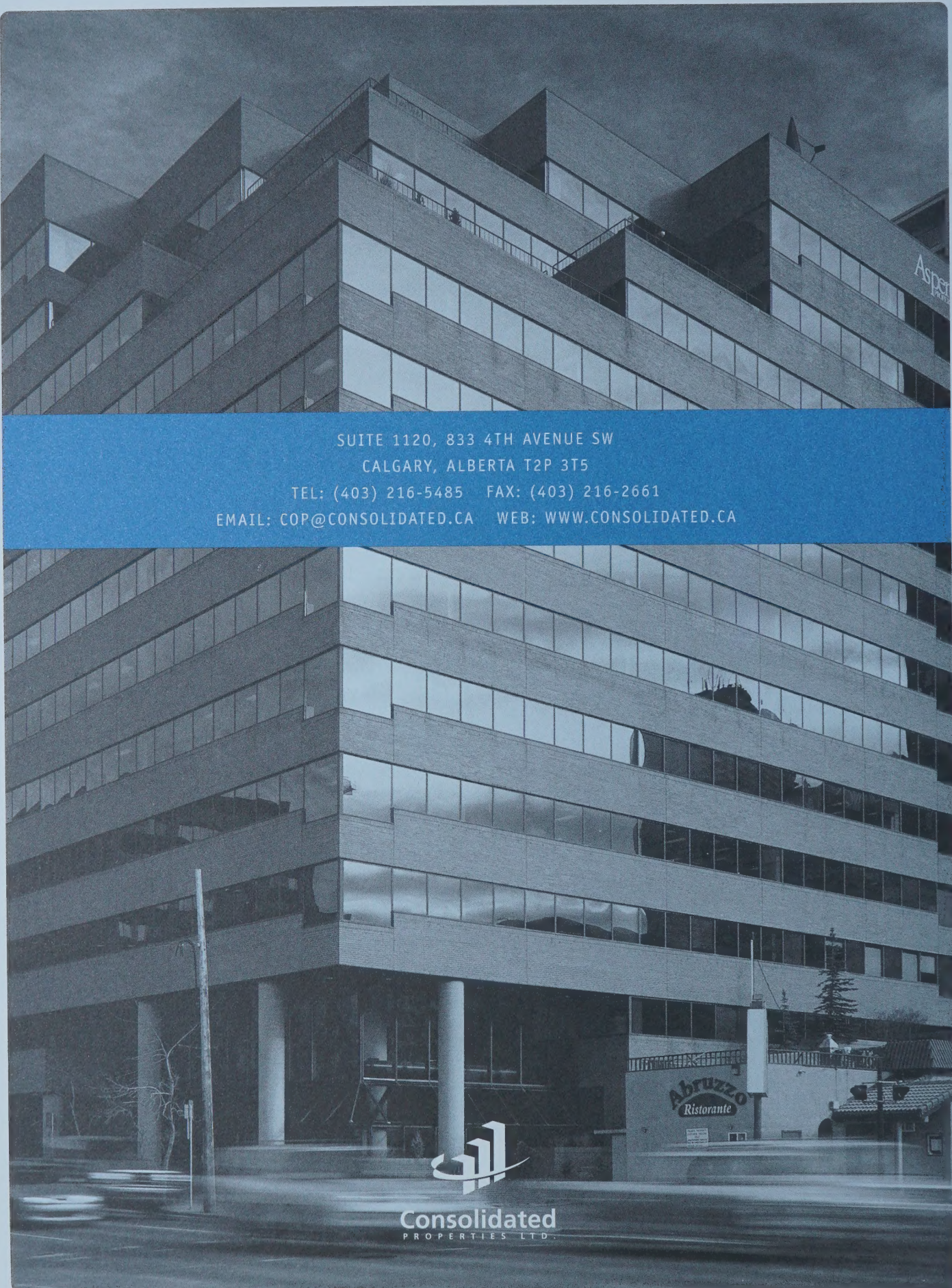
Tuesday May 18, 2004 at 2 pm

Canadian Pacific Theatre

Main Floor

833 4th Avenue SW

Calgary, Alberta



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